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SUBJECT: France: Telecom and Information Technology Update

11. This is another in a series of periodic updates on the French telecommunications and information technology sectors, including internet and e-commerce.

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12. French mobile operator SFR has become the second largest fully integrated operator in France following its 451.6 million dollar acquisition earlier this month of Tele2 France. Under the deal, SFR will take over Tele2's fixed-line operations including its broadband unit, and would have to operate the business under the Tele2 brand for up to three years. (Note: SFR will not purchase Tele2's multiple virtual network operator (MVNO) operations in France (i.e.

business from renting airspace from other companies), which accounted for 300,000 customers at the end of June 2006. End Note). At the same time, SFR remains the country's second-largest mobile operator as well as the largest stakeholder in France's second largest fixed operator, Neuf Cegetel. SFR, a joint venture between Vodafone and Vivendi, took-over Tele2 after Neuf backed down from the bid. The future of the SFR/Neuf Cegetel alliance will ultimately have to be defined in the coming months.

13. Independent executive agency the French Competition Council has just approved Neuf Cegetel's purchase of AOL France from Time Warner. With this 288 million euros (USD 360) acquisition, Neuf Cegetel will gain over 500,000 high-speed Internet customers to bring its total to more than 2 million. The deal brings Neuf Cegetel into close competition with the Illiad Group's subsidiary Free for the title of second-largest broadband provider in Europe.

14. French alternative broadband provider Free announced in mid-September that it will spend one billion euros building a fiber network in France through 2012. This fiber-to-the-home (FTTH) rollout will begin in central Paris, followed by the Paris suburbs and other parts of France. Free officials said their plan contributed to French public authorities' declared aim of positioning France at the leading edge of information technology. Meanwhile, France Telecom (FT) is piloting a fiber optic program in Paris to assess the economic feasibility of such a large project in cities. Despite being the first French operator to trial FTTH in January 2006, FT believes there is no available content to warrant an immediate investment in nationwide FTTH deployment. FT retains 50 percent of the French broadband market, while Free has 18 percent.

15. In early October, FT's mobile arm Orange France launched new phones allowing customers to make phone calls on mobile and Wi-Fi networks. Dubbed Unik, the service allows a person to make free phone calls inside France over the Internet connection and to switch over to the mobile phone network when leaving home. FT customers will pay 10 euros (USD 12.50) per month for fixed-line calls within France, in addition to 99 euros (USD 123.75) and more for the phone itself and charges for Livebox, a system which connects users to broadband lines. For 22 euros (USD 27.50) per month customers can get unlimited calls to both Orange mobiles and fixed lines. Though Unik can be cheaper for Orange customers, people who call a Unik line will be charged for a mobile phone call, rather for a fixed-line call. Calling a mobile phone is generally more expensive and the adoption of mobile phone rates for converged phones has elicited concern from some consumer groups.

16. On October 16, Microsoft Chief Executive Steven Ballmer announced an "instant messaging" product to be offered by Orange. When the service starts in December, Orange subscribers will be able to conduct real-time chats by voice, text, or video on their phones or personal computers, using a version of Microsoft's messaging software. The companies are now calling the service Orange Messenger by Windows Live. Yahoo is launching a rival internet messaging product with France-based Bouygues Telecom.

17. French consumer group UFC-Que Choisir announced in mid-October that it had submitted a request for damages at the Paris Tribunal of Commerce for price fixing by French mobile phone operators Bouygues, Orange and SFR. UFC said it had received 12,530 requests for damages and was requesting 750,000 euros, or roughly 60 euros (USD 75) per person. Last year, the French Competition Council fined the three operators 534 million euros (USD 667.5 million) for forming a cartel and freezing mobile phone prices between 2000 and 2002.

18. The number of telephone service subscriptions (37.2 million subscribers) is up almost 6 percent at the end of the first quarter of this year, mostly due to the very rapid development of telephony using broadband Internet connections (VoIP-Voice-over-Internet Protocol). Full unbundling has also contributed to this extremely rapid growth, with some one million lines established at the end of the first quarter. During that same period, high-speed Internet continued to grow, totaling 10.5 million subscribers. Similarly, mobile telephone continued its expansion, adding up to 48.6 million subscribers thanks to the arrival of multiple virtual network operators (MVNO). All in all, income generated by the electronic

communications market in France reached 10.1 billion euros (USD 12.6 billion).

¶9. Motorola Mobile Devices President Ronald Garriques, in an exclusive interview with the Figaro on October 26, indicated a "serious interest" in acquiring French communications equipment firm Sagem, a subsidiary of Safran. Garriques indicated that acquiring Sagem "is an option in a sector that is in the process of consolidating ... I do not know yet if we will get it." Garriques praised Sagem's management for being among the most respected in the mobile telephony sector and indicated that, in determining which firms to acquire, Motorola considered first the human resources of the target firm more than its technology or brand. In September French aero engines and telecoms group Safran said it was studying all options for its Sagem division, which has been dogged by a series of financial losses. Motorola has made a series of recent acquisitions in Europe including Mitsubishi Europe based in Rennes, France-based TPP Com, UK-based Sendo, and Danish firm BenQ. Garriques signaled Motorola's intention to continue acquisitions as part of its strategy of increasing market share in France and the rest of Europe.

¶10. With the advent of TV services on mobile phones and the extension of the French digital terrestrial TV (DTT) platform, the French Culture Ministry has drafted a bill on "the modernization of audiovisual broadcasting and the future of television," currently before the Senate. The bill would foster television broadcasting over mobile phones, the introduction of high definition television (HDTV), and the replacement of analog television by digital TV in

¶2011. Debates are due to take place November 20, 21 and 22. After passage, the draft bill will then move to the National Assembly.
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